


India Office, Q2 2015

# E-commerce overtakes BFSI as the second largest occupier of office space in India after IT

 Rents Up  
14 Markets

 Rents Stable  
17 markets

 Rents Down  
1 Market

 Demand (Y-O-Y)  
6%

 Supply (Y-O-Y)  
25%

## ECONOMIC GROWTH ACCELERATES IN MARCH TO A 4-YEAR HIGH; ON RECOVERY MODE

The Indian economy witnessed a gradual recovery on the back of investment-friendly policies initiated over the past year. The gross domestic product (GDP) expanded by 7.3% in FY 2015, marginally higher than the 6.9% recorded in the previous fiscal. Furthermore, India's economic growth accelerated to 7.5% during the January–March 2015 period, putting us ahead of China (7%) as the world's fastest-growing large economy. This improvement was spearheaded by both the manufacturing and the 'finance, insurance and real estate service' segments that performed strongly, growing by 7.1% and 11.5%, respectively. The International Monetary Fund (IMF) has forecast India's growth to strengthen to 7.5% in 2015 as well as in 2016. The World Bank has also projected economic growth to accelerate to 7.5% in 2015, reaching 8% by 2017, on the back of a spurt in investment activity.

## LEGISLATIVE MEASURES AND IMPLICATIONS

The real estate and construction sector saw a spate of legislative initiatives from the Government over the past few months, many of which are currently being debated in Parliament. The Government approved the Real Estate Regulatory Bill, wherein the scope of the amended Bill was expanded to cover residential and commercial real estate segments; even as the lower house of Parliament approved the Goods and Services Tax (GST) regulation that is likely to bring uniformity in taxation across the country.

With inflation under control, the Reserve Bank of India (RBI) reduced the repo rate by 25 bps (for the third time since January) to 7.25% in June 2015.

Additionally, the Minimum Alternate Tax (MAT) exemption paved the way for the launch of Real Estate Investment Trusts (REITs) by clarifying that it would be levied only on actual transfer of shares on listings and that Foreign Direct Investment (FDI) norms would be allowed in rent-yielding commercial assets, thereby removing a key investment related restriction by the Foreign Exchange Management Act (FEMA). While clarification on MAT will encourage developers to firm up their plans, the levy of the Dividend Distribution Tax (DDT) is likely to act as a deterrent for foreign investors. However, the exemption of both would prove to be an incentive for real estate investors and developers looking at raising capital via the REIT-route. At a time when the realty sector is struggling for funding, REITs will likely improve liquidity in the commercial real estate market to a large extent.

## OFFICE MARKETS FIRMLY IN RECOVERY, EXPANSION MODE; ALTERNATE BUSINESS DISTRICTS REMAIN THE FLAVOR

Improved macro-economic sentiments led to a notable rise in absorption in the office leasing market with a number of blue-chip tenants moving to quality developments across leading cities in the April–June period. The office market observed strong demand in the second quarter with prominent Grade-A developments

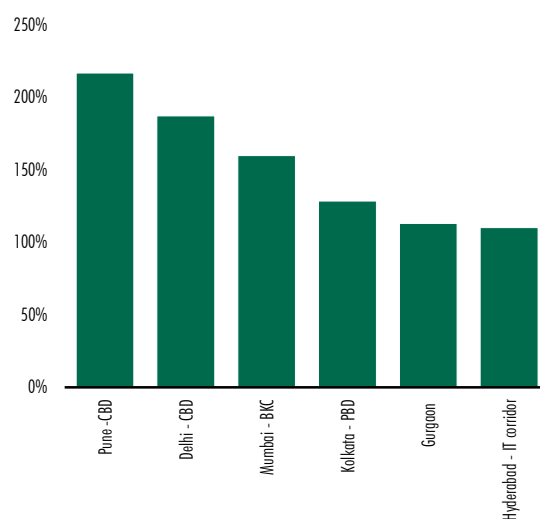
witnessing higher absorption levels. Demand continued to remain healthy with enhanced enquiries for fresh expansions and consolidation requirements by various corporates.

Leasing activity rebounded in the second quarter with more than 8 million sq. ft. of office space absorbed across the seven leading cities—a quarter-on-quarter (q-o-q) increase of around 70%. Close to 35% of this total absorption was reported from Bangalore, where leasing remained upbeat in the Outer Ring Road (ORR) and North Bangalore regions. Office space demand Delhi-NCR, Mumbai and Chennai also continued to witness a positive momentum with several large-sized transaction closures being reported in IT and SEZ developments, located mostly in peripheral locations. These three cities accounted for almost 53% of the total absorption, each witnessing a healthy take-up of more than a million square feet of office space. On a quarterly comparison, all cities registered healthy absorption levels—barring Pune, which observed a dip in absorption activity during this quarter. A few large-sized expansions are under various stages of execution, however, and are expected to conclude in the coming months.

However, the total office space absorption for the January – June period stood at approximately 13 million sq. ft., a decline of 12% when compared to H1 2014. Transaction activity was mostly led by office leasing in Bangalore (28%), Delhi NCR (23%) and Mumbai (20%); while smaller cities such as Chennai and Pune contributed around 25% in their transaction market shares.

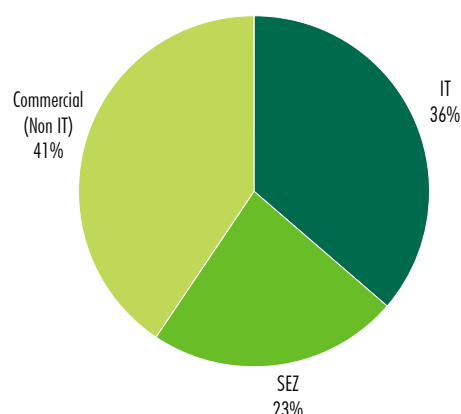
Occupier interest during the review period remained strong in peripheral and suburban office districts such as Gurgaon in Delhi NCR; Bandra-Kurla Complex and Thane/Navi Mumbai/Powai/Vikhroli in Mumbai; the IT Corridor / Extended IT Corridor in Hyderabad; the Old Mahabalipuram Road (OMR) stretch along Perungudi, Sholinganallur/Thorapakkam in Chennai; Hinjewadi / Kharadi / Baner / Yerawada in Pune; and Salt Lake Sector V and Rajarhat in Kolkata.

**Chart 1: Growth in Transaction Activity in Prominent Micro-markets (Q-o-Q)**



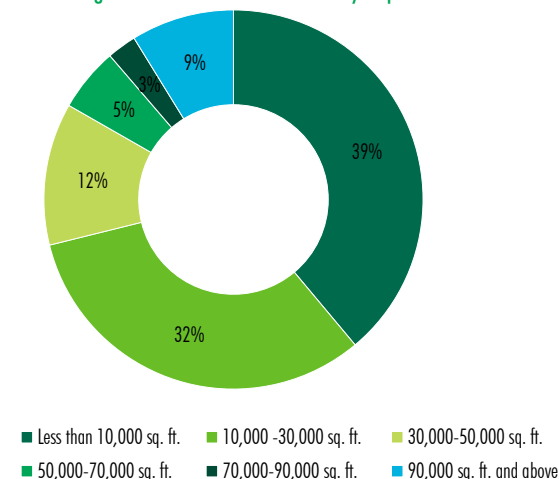
Source: CBRE Research, Q2 2015.

**Chart 2: Segment Wise Split of Transaction Activity**



Source: CBRE Research, Q2 2015.

**Chart 3: Segmentation of Transaction Activity as per Transaction Size**



Source: CBRE Research, Q2 2015.

Office space demand in these locations was mainly driven by corporate occupiers from the IT/ITeS, e-Commerce, banking / financial services, and engineering / manufacturing sectors for their office space requirements.

#### SEARCH FOR QUALITY SPACE DROVE OCCUPIERS TO PRE-COMMIT

Due to paucity of new quality supply in key micro-markets, occupiers looking for premium Grade-A office spaces pre-committed to space in upcoming IT Parks and IT-SEZs during the quarter. Corporate occupiers who pre-committed to spaces in certain under-construction developments positively impacted the transaction activity during the quarter. Owing to lack of quality office spaces with larger floor plates, most under-construction developments in suburban and peripheral micro-markets across cities attracted enhanced levels of enquiries and pre-commitment activity.

#### SMALL TO MEDIUM SIZED DEALS DOMINATED TRANSACTION ACTIVITY

Prominent IT buildings witnessed considerable traction and accounted for a share of around 36% of total transacted space in the quarter. In addition, SEZ developments spread across Gurgaon, Bangalore, Chennai and Pune also observed strong leasing activity (23% share), which was mostly generated by corporates from the IT, pharmaceuticals and research/consulting sectors.

Larger-sized transactions were limited, and constituted only around 9% of total transactions concluded during Q2 2015. A few big ticket transactions (above 100,000 sq. ft.) were finalized in Gurgaon, Mumbai, Bangalore, Chennai and Pune by leading corporates such as Home Credit India, Accenture, Epsilon Technologies, and Oracle, among others. Additionally, smaller transactions (less than 10,000 sq. ft.) constituted close to 39% of total transactions; while those ranging between

10,000–30,000 sq. ft. accounted for around 32% of total deal closures reported during the quarter.

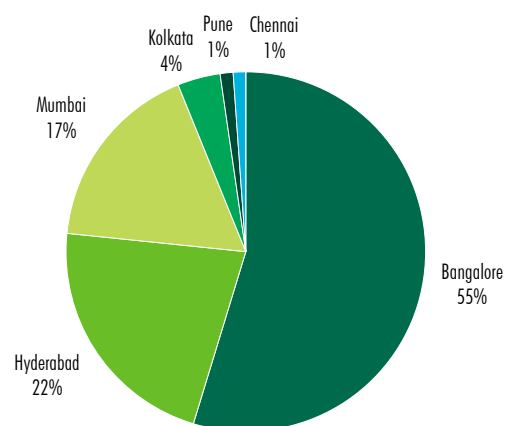
#### E-COMMERCE FIRMS WERE THE SECOND LARGEST OCCUPIER OF OFFICE SPACE

A key development witnessed during the review period was the spurt in office space leasing by online retail firms, with the likes of Amazon, Flipkart and Snapdeal committing to large spaces—particularly in the NCR and Bangalore. This led to the sector emerging as the second largest occupier of office space during the second quarter with a share of about 17%, followed by banking / financial services at around 16%. With a share of approximately 36%, IT/ITeS remained the largest occupier of office space across the seven leading cities.

#### DEVELOPMENT COMPLETIONS SURGED BY AROUND 6% Q-O-Q, BANGALORE SEES THE HIGHEST OFFICE SPACE ADDITION

With the completion of numerous large-sized office developments across the leading cities, close to 9 million sq. ft. of Grade-A office space was added during the quarter—representing a q-o-q increase of 6% and a y-o-y rise of 25%. Commercial (non-IT) projects accounted for the majority of this new supply, while a few development completions were new phases of existing projects.

Chart 4: City Wise Split of New Supply



Source: CBRE Research, Q2 2015.

Moreover, the prime office space segment across key cities witnessed a supply infusion of close to 17 million sq. ft. in the first six months of 2015; an increase of about 28% when compared to H1 2014. Bangalore accounted for around 33% of the total supply introduced, while Delhi NCR accounted for about 26% of the total share. Mumbai and Hyderabad constituted close to 28% of the total supply completed in the Jan – June 2015 period.

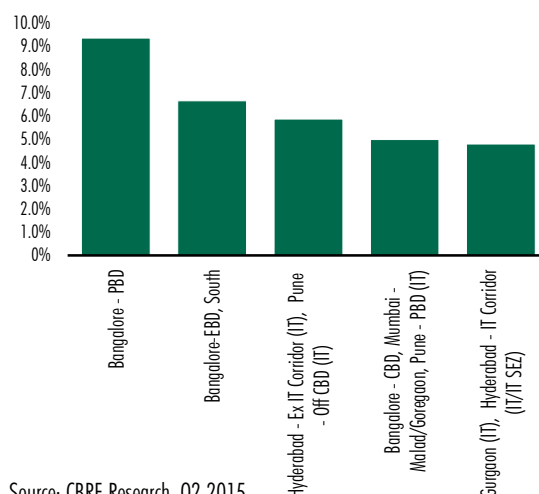
Anticipating a healthy demand for quality office space, developers in Bangalore successfully delivered numerous projects in Q2 2015—making it the highest contributor of new office space with a share of almost 55%. The pent up supply accumulated over the past few months was released in the ORR and North Bangalore. Mumbai and Hyderabad also witnessed an increase in project completions and garnered a share of nearly 39% of the total supply released during the quarter. Cautious market sentiments in Chennai, Pune and Kolkata, however, restricted development completions, leading to higher slippage rates as the completion of several projects got delayed to subsequent quarters.

Additionally, NCR was the only market devoid of any new development completions during Q2 2015, as none of the projects lined up for completion could procure the necessary statutory approvals for operations. The entire pipeline lined up during the quarter was pushed further into the second half of 2015, creating a potential supply glut for select locations in the city in the coming few months.

#### OFFICE SPACE RENTAL RATES INCREASE AMID ROBUST DEMAND

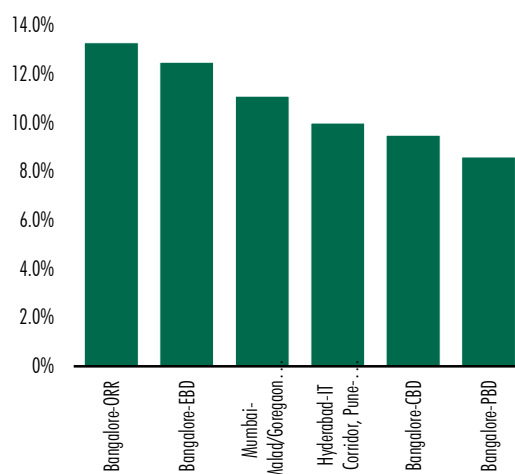
Strong demand and high occupancy rates in prominent micro-markets unsurprisingly boosted the confidence of landlords to quote higher rental values. This resulted in strong rental growth (5–6%) in Bangalore's Central Business District (CBD), while maintaining stability in the prime office districts of most cities. On the other hand, Kolkata CBD observed a decline in rental values

Chart 5: Strongest Office Rental Growth, Q-o-Q



Source: CBRE Research, Q2 2015.

Chart 6: Strongest Office Rental Growth, Q2 2015 Vs Q2 2014



Source: CBRE Research, Q2 2015.

on the back of weak occupier demand. Moreover, sustained occupier interest in IT / IT SEZ projects in Gurgaon and Noida (Delhi NCR); Malad / Goregaon (Mumbai); North Bangalore and ORR (Bangalore); IT and Extended IT Corridor (Hyderabad); Aundh, Baner, Viman Nagar, Hinjewadi and Kharadi (Pune), resulted in a q-o-q rental appreciation of 3–6% in each of these micro-markets. Whilst Whitefield in Bangalore observed rental appreciation of 9-10% over Q1 2015. In addition, select developments in the peripheral and suburban micro-markets of Bangalore and Gurgaon recorded rental appreciation on the back of notable pre-commitment activity in under-construction projects.

## MARKET SUMMARY

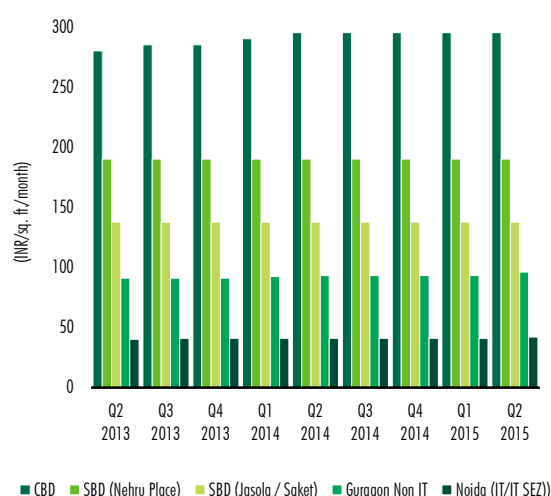
- Gurgaon accounted for 73% of total demand in Delhi-NCR
- E-commerce companies leased approximately 30% of the total transacted space
- Steady occupier enquiries resulted in rental appreciation (2-5%) in most peripheral sub-markets

The **Central Business District (CBD)** of **Connaught Place** witnessed a marginal increase in absorption levels in Grade-A developments; Grade-B buildings also witnessed strong demand from corporates looking for smaller format office spaces. Occupiers from the banking / financial services, engineering/manufacturing and research/consulting sectors dominated leasing activity; and were majorly concentrated in developments such as Gopaldas Bhawan, Ashoka Estate and New Delhi House on Barakhamba Road in the second quarter. Rental values remained mostly stable during the review period.

Transaction activity in the **Secondary Business District (SBD)** of **Nehru Place, Saket** and **Jasola** witnessed a marginal increase in the second quarter. The lack of any new supply, along with a marginal increase in demand levels led to a marginal decline in vacancy levels. Transaction activity was mostly concentrated in developments located at Jasola and Okhla during the second quarter of the year. Prominent transactions include Amarchand Mangaldas leasing around 45,000 sq. ft. in the Religare building, Saket, and Club Mahindra leasing around 7,000 sq. ft. at TDI Centre, Jasola. Rental values continued to remain stable across micro-markets in the quarter under review.

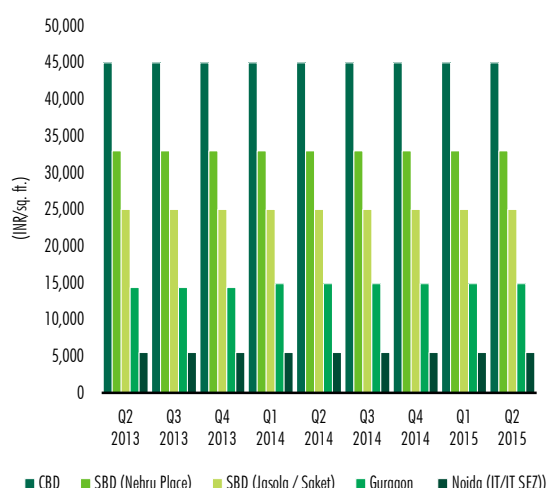
The peripheral region of **Gurgaon** constituted most of the demand for office space in the second quarter. DLF Cyber City, Sohna Road, and Golf Course Road continued to remain the key locations that attracted increased interest from occupiers from the IT/ITES, e-commerce and research/consulting sectors. Space take-up

Chart 7: Rental Value Movement



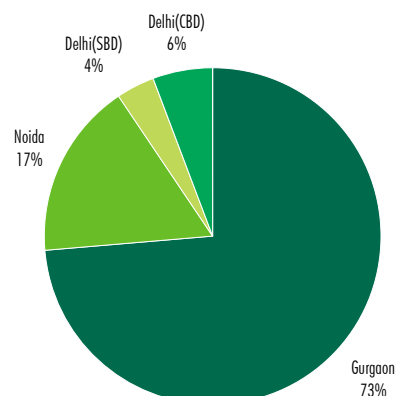
Source: CBRE Research, Q2 2015.

Chart 8: Capital Value Movement



Source: CBRE Research, Q2 2015.

Chart 9: Segmentation of Transaction Activity



Source: CBRE Research, Q2 2015.

was majorly concentrated in IT developments, even as occupier focus remained firmly on leasing small to medium format office spaces (2,000 – 50,000 sq. ft.). Prominent transactions included Snapdeal leasing around 450,000 sq. ft. at ASF Centre and ASF Towers, Udyog Vihar, and Thought Focus leasing around 23,000 sq. ft. at DLF Building 5, DLF Cyber City. On a quarterly comparison, rental values in select areas such as DLF Cyber City, Sohna Road and NH-8 appreciated in the range of 5–6% due to strong demand levels stemming from their strategic

location, ambient infrastructure and low vacancy rates.

**Noida** witnessed strong demand (largely in IT developments) from corporate occupiers leading to an increase in absorption levels during the quarter. Noida Expressway, followed by the Sector 62 cluster, were the preferred office locations in Noida during the review period. Continued occupier enquiries led to an appreciation in rental values in select developments by 2–3% on a q-o-q basis.

**Table 1: Selected Leasing Transactions**

| Property                | District  | Size (in sq. ft.) | Tenant             |
|-------------------------|-----------|-------------------|--------------------|
| Express Trade Towers II | Noida     | 125,000           | Oracle             |
| ASF Insignia            | Gurgaon   | 70,000            | IBM                |
| Gopaldas Bhawan         | New Delhi | 4,500             | Signature Global   |
| JMD Mega polis IT Park  | Gurgaon   | 4,000             | Zeus Law Associate |

Source: CBRE Research, Q2 2015.

**Table 2: Sub-market Key Stats**

| Micro-market                           | Average Rent in Q2 2015 (INR/sq. ft. / month) | Average Rent in Q1 2015 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|--|---|---|------------------|------------------|
| CBD (Connaught Place) Grade A          | 295   | 295   | 0.0              | 0.0              |
| CBD (Connaught Place) Grade B          | 160   | 160   | 0.0              | 0.0              |
| Secondary Market (Nehru Place) Grade A | 190   | 190   | 0.0              | 0.0              |
| Secondary Market (Jasola) Grade A      | 115   | 115   | 0.0              | 0.0              |
| Secondary Market (Saket) Grade A       | 160   | 160   | 0.0              | 0.0              |
| Gurgaon Grade A (Non IT)               | 96  | 93  | 3.1              | 3.2              |
| Gurgaon Grade A (IT)                   | 73  | 70  | 4.8              | 7.3              |
| NOIDA Grade A (IT/IT SEZ)              | 42  | 41  | 2.4              | 2.4              |

Source: CBRE Research, Q2 2015.

### MARKET SUMMARY

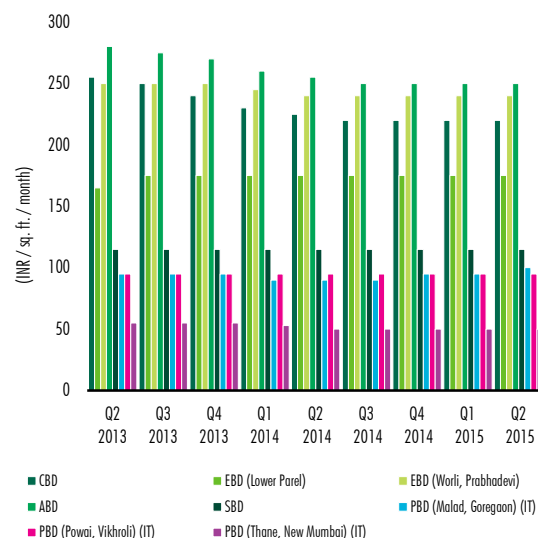
- Peripheral markets constituted approximately 50% of the total space take-up
- Banking / financial services sector leased about 31% of the total transacted space
- New supply was concentrated in BKC, Andheri and Lower Parle

The **Central Business District (CBD)** of **Nariman Point, Fort and Cuffe Parade** witnessed a renewal in transaction activity in select buildings that had undergone refurbishment in recent months. Domestic banking / financial services firms and law firms remained the prominent occupiers of space. No new supply addition was observed and rental values maintained stability in the second quarter.

The **Extended Business District (EBD)** of **Lower Parel** witnessed sluggish transaction activity with the closure of a few small and medium format office spaces, mostly from banking / financial services occupiers. This micro-market witnessed the completion of a new phase in an already existing IT development, resulting in a q-o-q appreciation of about 2–3% in vacancy rates. Leasing activity in the micro-markets of **Worli** and **Prabhadevi** remained dormant, leading to stability in vacancy rates and rental values during the review period.

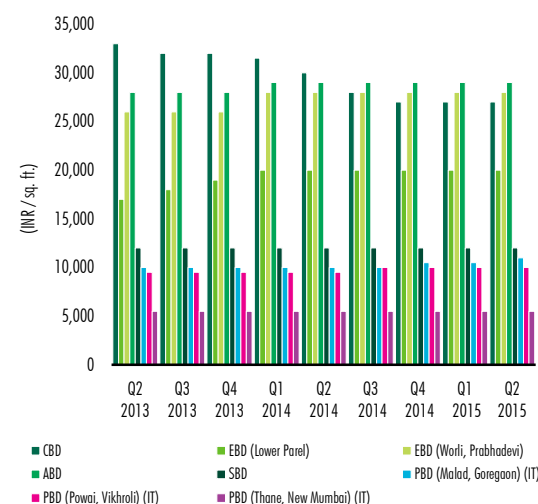
Commercial leasing activity picked up in the **Alternative Business District (ABD)** of **Bandra Kurla Complex** and **Kurla (W)** with increasing occupier interest opting to relocate or expand operations in this micro-market. Many small to mid-size transactions by banking / financial services and engineering/manufacturing firms were concluded in the quarter. On the supply side, a significant quantum of office space was released with the completion of two commercial projects—One BKC (A Wing) and Kalpataru Inspire (Synergy II)—during the second quarter. Owing to healthy supply addition, vacancy rates appreciated marginally; while rents remained stable on a q-o-q basis.

Chart 10: Rental Value Movement



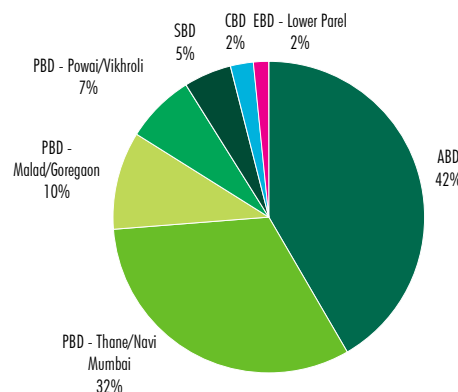
Source: CBRE Research, Q2 2015.

Chart 11: Capital Value Movement



Source: CBRE Research, Q2 2015.

Chart 12: Segmentation of Transaction Activity



Source: CBRE Research, Q2 2015.



Office space demand in the **Secondary Business District (SBD)** of **Andheri, Vile Parle** and **Jogeshwari** remained low during Q2 2015. However, this market witnessed the completion of a commercial development—Satellite Gazebo—in Andheri. Restrained demand amid new development completion led to a slight increase in vacancy levels, while rental values maintained stability during the quarter.

Office leasing activity in most IT developments remained strong in the **peripheral** micro-markets, with corporate firms from the Knowledge Process Outsourcing (KPO) and banking / financial

services sectors keen on exploring cost-effective office spaces. Within the peripheral region, the micro-markets of Malad, Goregaon, Kanjurmarg, Navi Mumbai and Thane witnessed strong demand for IT space, with the closure of various medium to large format office space transactions in the second quarter. Healthy transaction activity led to a slight decline in vacancy levels across micro-markets.

Rental values remained stable across all micro-markets—barring Malad, where select IT developments witnessed rental appreciation in the range of 5–6% on a quarterly comparison.

Table 3: Selected Leasing Transactions

| Property                             | District          | Size (in sq. ft.) | Tenant                      |
|--------------------------------------|-------------------|-------------------|-----------------------------|
| Reliable Tech Space - B              | PBD — Navi Mumbai | 160,000           | Home Credit India           |
| Titanium I                           | SBD               | 30,000            | Cigna TTK                   |
| Express Towers                       | CBD               | 25,000            | Shardul Amarchand Mangaldas |
| Indiabulls Finance Centre Tower - II | EBD - Lower Parel | 4,500             | Square Dots                 |

Source: CBRE Research, Q2 2015.

Table 4: Sub market Key Stats

| Micro-market                                    | Average Rent in Q2 2015 (INR/sq. ft. / month) | Average Rent in Q1 2015 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Nariman Point, Fort, Cuffe Parade) Grade A | 220   | 220   | 0.0              | -2.2             |
| CBD (Nariman Point, Fort, Cuffe Parade) Grade B | 170   | 170   | 0.0              | -2.9             |
| EBD (Lower Parel) Grade A                       | 175   | 175   | 0.0              | 0.0              |
| EBD (Worli, Prabhadevi) Grade A                 | 240   | 240   | 0.0              | 0.0              |
| ABD (Bandra Kurla Complex, Kalina) Grade A      | 250   | 250   | 0.0              | -2.0             |
| ABD (Bandra Kurla Complex, Kalina) Grade B      | 195   | 195   | 0.0              | -2.5             |
| SBD (Andheri, Vile Parle, Jogeshwari) Grade A   | 115   | 115   | 0.0              | 0.0              |
| SBD (Andheri, Vile Parle, Jogeshwari) Grade B   | 80  | 80  | 0.0              | -5.9             |
| PBD (Malad, Goregaon) Grade A (IT)              | 100   | 95  | 5.3              | 11.1             |
| PBD (Powai, Vikhroli) Grade A (IT)              | 95  | 95  | 0.0              | 0.0              |
| PBD (Thane, New Mumbai) Grade A (IT/IT SEZ)     | 50  | 50  | 0.0              | 2.0              |

Source: CBRE Research, Q2 2015.



### MARKET SUMMARY

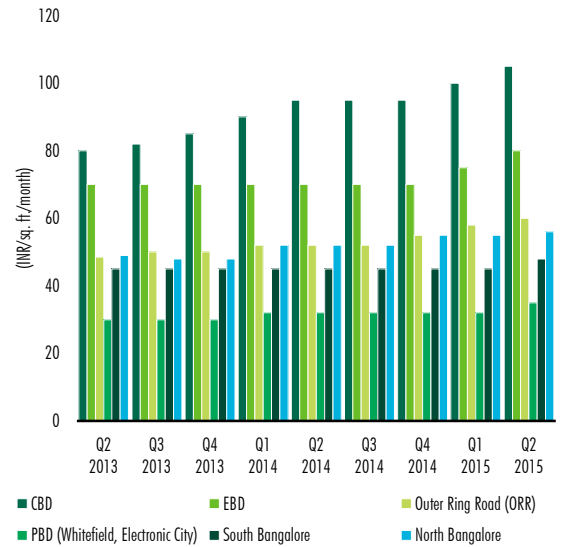
- ORR dominated transaction activity, accounting for 76% of total absorption
- Supply addition was mainly concentrated in North Bangalore and ORR
- IT/ITeS remained major driver with approximately 36% share of total demand

The **Central Business District (CBD)** of **MG Road, Richmond Road, Residency Road** and **Lavelle Road** witnessed slight increase in transaction activity with sustained demand from corporates exploring second generation space options, offering relatively lower rentals. Transaction closures were confined to the take-up of smaller format office spaces during the quarter. This region witnessed an exodus of tenants towards cost effective locations offering quality Grade-A developments with larger floor plates. Sustained occupier demand in select commercial developments contributed to a rental appreciation of about 5–6% on a q-o-q basis.

The **Extended Business District (EBD)** of **Indira Nagar, Koramangala, Old Madras Road** and **CV Raman Nagar** registered lackluster performance in leasing activity owing to limited availability of quality office space. Additionally, this micro-market also observed the release of second generation space (Bagmane Tech Park and Embassy Golf Links Business Park) as a result of the various consolidation initiatives of corporate office occupiers in Bangalore. Low vacancy rates and limited availability of quality office options led to a marginal appreciation in select commercial developments on a q-o-q basis.

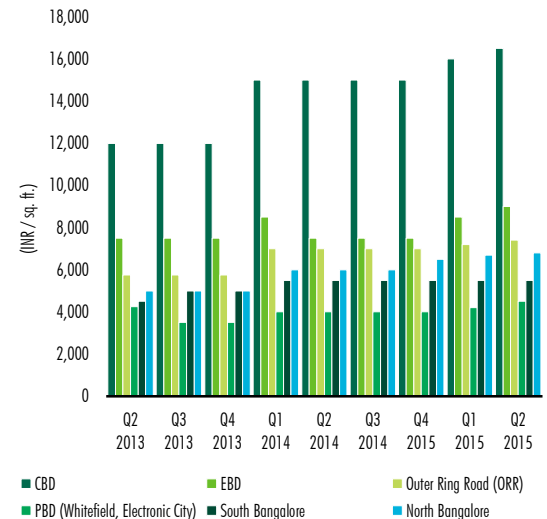
The micro-markets of **Bannergatta Road, JP Nagar, Jayanagar** and **Mysore Road** in **South Bangalore** witnessed sluggish transaction activity in the quarter. Larger numbers of corporates sought relocation options, thus evaluating options along the ORR as the commencement of the Metro construction work will lead to traffic congestion and hinder easy access to this region.

Chart 13 Rental Value Movement



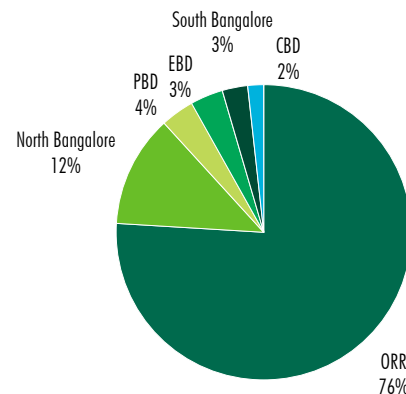
Source: CBRE Research, Q2 2015.

Chart 14: Capital Value Movement



Source: CBRE Research, Q2 2015.

Chart 15: Segmentation of Transaction Activity



Source: CBRE Research, Q2 2015.

The micro-markets of **Whitefield** and **Electronic City** in the **Peripheral Business District (PBD)** witnessed enhanced levels of corporate enquiries for large scale consolidation and expansion requirements; although transaction closures remained low during the quarter. On the supply front, this micro-market witnessed the completion of a single commercial development. Sustained occupier interest led to a rental appreciation of 9–10% over Q1 2015 in the non-IT/ITeS segment, while the SEZ segment witnessed stable rental values on a q-o-q basis.

The **Sarjapur – Outer Ring Road (ORR)** area witnessed strong demand and accounted for nearly 75% of the total space leased in the city during the second quarter. Demand remained focused on medium and larger format spaces, primarily by occupiers from the IT /ITeS, as well as research/consulting and e-Commerce firms. Large-sized transaction closures (above 100,000 sq. ft.) were observed from corporates such as Amazon, Flipkart, among many others.

Occupiers have been actively considering this micro-market for their long-term expansion and consolidation plans. In addition, a significant quantum of pre-commitment activity was observed within some of the prominent under-construction developments. On the supply front, this micro-market witnessed significant supply addition, contributing nearly 50% to the overall development completions reported in the city. Sustained occupier demand led to a rental appreciation of 3–4% over Q1 2015, in both non-IT/ITeS and SEZ segments.

**North Bangalore** witnessed an uptick in demand during Q2 2015. Transaction activity was largely driven by medium sized space take-ups by IT/ITeS and telecommunications firms. In terms of supply, locations such as Hebbal, Nagvara ORR and Yehalanka witnessed the completion of a few office developments during the review period. A spurt in transaction activity in non IT/IT and SEZ segments led to a marginal rental appreciation of around 2–4% over that of Q1 2015.

Table 5: Selected Leasing Transactions

| Property                | District        | Size (in sq. ft.) | Tenant              |
|-------------------------|-----------------|-------------------|---------------------|
| Prestige Shantinikethan | PBD             | 80,000            | Exxon Mobil         |
| Global Village          | South Bangalore | 78,000            | Accenture           |
| Diamond District        | EBD             | 38,000            | Max Heap Technology |

Source: CBRE Research, Q2 2015.

Table 6: Sub-market Key Stats

| Micro-market                              | Average Rent in Q2 2015 (INR/sq. ft. / month) | Average Rent in Q1 2015 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (MG Road, Residency Road) Grade A     | 105   | 100   | 5.0              | 9.5              |
| CBD (MG Road, Residency Road) Grade B     | 80  | 75  | 6.7              | 8.8              |
| EBD (Koramangala, Indira Nagar) Grade A   | 80  | 75  | 6.7              | 12.5             |
| EBD Koramangala, Indira Nagar) Grade B    | 65  | 60  | 8.3              | 7.7              |
| Outer Ring Road Grade A                   | 60  | 58  | 3.4              | 13.3             |
| PBD (Whitefield, Electronic City) Grade A | 35  | 32  | 9.4              | 8.6              |
| South Bangalore Grade A                   | 48  | 45  | 6.6              | 6.6              |
| North Bangalore Grade A                   | 56  | 55  | 1.8              | 7.1              |

Source: CBRE Research, Q2 2015.

## MARKET SUMMARY

- IT corridor dominated transaction activity
- Rents in IT-developments in IT corridor and Extended IT Corridor witnessed appreciation
- Supply addition was mainly concentrated in the suburban locations of Madhapur and Gachibowli
- IT developments dominated transaction activity with 44% share of total demand

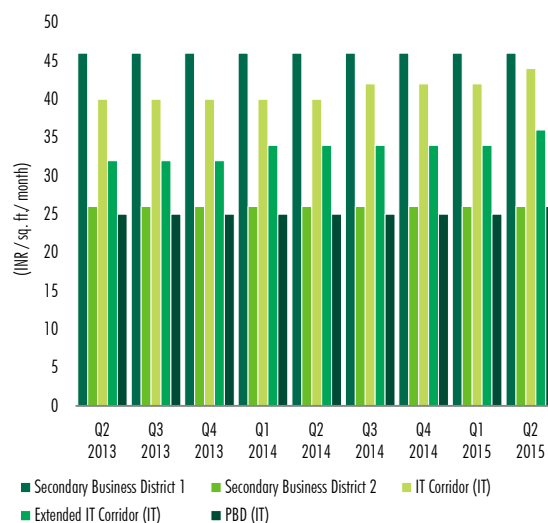
The **Central Business District (CBD)** comprising areas of **Begumpet, Punjagutta, Somajiguda** and parts of **Banjara Hills** witnessed the closure of a few smaller format office transactions in the second quarter. Due to restricted demand levels, rental values remained largely stable in this region.

The **Secondary Business District (SBD)** of **Ameerpet, Himayathnagar, parts of Banjara Hills, Kukatpally, and Jubilee Hills** observed sluggish demand in the present quarter. Going forward, this region is likely to witness completion of a single commercial development (nearly 1 million sq. ft.) by the end of this year. Limited demand, coupled with negligible supply addition, led to stable rentals in this micro-market.

Commercial leasing activity remained buoyant in the **IT Corridor** of **Madhapur, Kondapur and Raidurg**, in the second quarter. Locations such as Madhapur garnered significant interest from IT/ITeS firms. On the supply front, Madhapur witnessed the completion of an SEZ and an IT development during the review period. Most of the recent completions are strata sold, which are not preferred by MNC's evaluating office space options in this region, thus resulting in a marginal increase in vacancy rates. Also, healthy occupier enquiries in select IT / SEZ developments led to a marginal increase in rentals on a quarterly comparison.

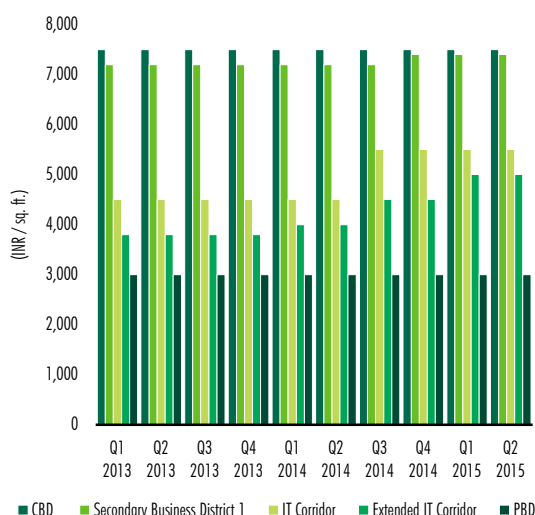
Owing to lack of social infrastructure, the Extended IT Corridor of **Nanakramguda Gachibowli**, and **Manikonda** continued to

Chart 16: Rental Value Movement



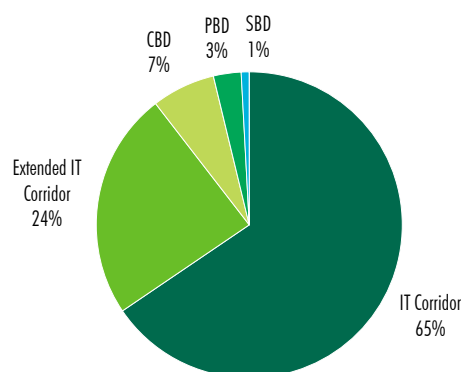
Source: CBRE Research, Q2 2015.

Chart 17: Capital Value Movement



Source: CBRE Research, Q2 2015.

Chart 18: Segmentation of Transaction Activity



Source: CBRE Research, Q2 2015.

witness stagnant demand in Q2 2015. Select IT developments, however, observed enhanced levels of corporate enquiries for large scale consolidation and expansion requirements, leading to a slight increase in rental values on a q-o-q basis. Of the total supply released, nearly

60% was from Gachibowli (majorly non-IT segment).

The Peripheral region of Shamshabad, Uppal and Pocharam continued to experience a lack of demand for office space, with negligible leasing activity during the present quarter.

**Table 7: Selected Leasing Transactions**

| Property                            | District    | Size (in sq. ft.) | Tenant                |
|-------------------------------------|-------------|-------------------|-----------------------|
| Divyasree Orion Block 7 North Tower | IT Corridor | 45,000            | Invesco               |
| V IT Park                           | IT Corridor | 25,800            | Zen Quality Assurance |
| Ramky Grandiose Towers              | IT Corridor | 9,500             | Qvantel               |
| Central Plaza                       | CBD         | 2,500             | Tata Technologies     |

Source: CBRE Research, Q2 2015.

**Table 8: Sub-market Key Stats**

| Micro-market   | Average Rent in Q2 2015 (INR/sq. ft. / month) | Average Rent in Q1 2015 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|--|---|---|------------------|------------------|
| CBD (Begumpet, Punjagutta, Somajiguda and parts of Banjara Hills )                   | 46  | 46  | 0.0              | 0.0              |
| Secondary Business District 1 (Parts of Banjara Hills, Jubilee Hills)                | 46  | 46  | 0.0              | 0.0              |
| Secondary Business District 2 (Ameerpet, Himayathnagar, Kukatpally)                  | 26  | 26  | 0.0              | 0.0              |
| IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT)                   | 44  | 42  | 4.8              | 10.0             |
| IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT SEZ)               | 45  | 43  | 4.7              | 9.8              |
| Extended IT Corridor (Nanakramguda,, Manikonda, Gachibowli) Grade A (IT)             | 36  | 34  | 5.9              | 5.9              |
| Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Gachibowli) Grade A (IT SEZ) | 40  | 40  | 0.0              | 0.0              |
| PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)                                       | 26  | 25  | 4.0              | 4.0              |
| PBD (Shamshabad, Pocharam, Uppal) Grade A (IT SEZ)                                   | 30  | 29  | 3.4              | 7.1              |

Source: CBRE Research, Q2 2015.

### MARKET SUMMARY

- Chennai contributed 15% to the total space take up during this quarter
- Leasing activity remained largely concentrated in the peripheral markets
- IT/ITeS sector remained the major contributor to overall office demand

Commercial leasing activity in the **Central Business District (CBD)** of **Anna Salai, T Nagar, RK Salai, Alwarpet** and **Nungambakkam** witnessed steady transaction activity; deal closures were confined to the take up of smaller format office spaces during the second quarter. On the supply front, this region witnessed completion of a medium sized commercial development by an independent developer. Rental values remained largely stable in this micro-market.

Owing to lack of quality space options, locations such as **Taramani** and **Guindy** in the **Off/Non CBD** micro-market witnessed weak tenant demand during the quarter. Majority of the absorption activity was concentrated in a prominent SEZ development. Owing to high occupancy levels in the completed phases, the upcoming phases of **Ramanujan IT City (SEZ)** observed strong occupier demand, resulting in significant pre-commitment activity during the review period.

The **suburban** micro-markets of **OMR (Rajiv Gandhi Salai), Perungudi** and **Mount Poonamallee Road** witnessed a marginal increase in space take-up in the second quarter. These micro-markets attracted strong interest from corporate occupiers owing to lower rentals, good connectivity, and the presence of better quality office spaces with larger floor plates. Rental and capital values remained largely stable during the review period.

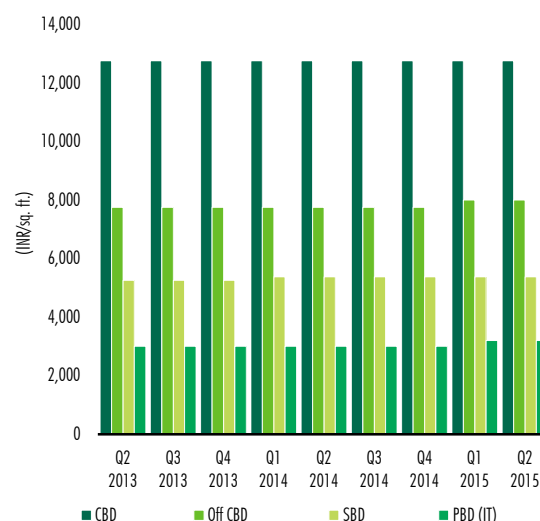
Compared to other micro-markets, the **Peripheral Business District (PBD)** of **Perungalathur, Sholinganallur, Siruseri,**

Chart 19: Rental Value Movement



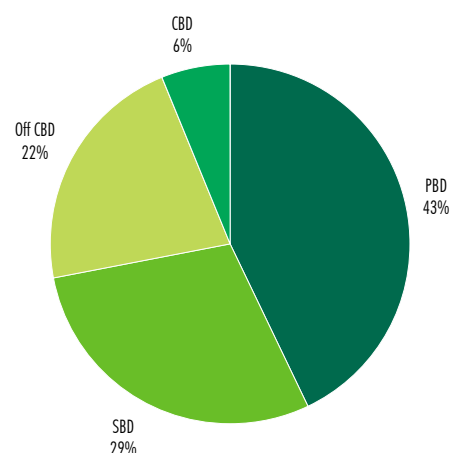
Source: CBRE Research, Q2 2015.

Chart 20: Capital Value Movement



Source: CBRE Research, Q2 2015.

Chart 21: Segmentation of Transaction Activity



Source: CBRE Research, Q2 2015.

**Ambattur** and **GST Road** led the absorption activity in the city, accounting for around 43% of the total space leased in Chennai during the quarter. This region saw a few medium format transaction closures from ITeS and healthcare firms such as Access Healthcare, HCL Technologies and IVTL Infoview Technologies, among others. Corporate occupiers from the

banking / financial services and IT sectors were observed exploring office options in this region for their expansion and consolidation requirements. Locations such as Ambattur, Navallur and Sholinganallur are expected to witness heightened activity in the coming months on the back of strong occupier demand. Rental values remained stable during the review period.

**Table 9: Selected Leasing Transactions**

| Property        | District | Size (in sq. ft.) | Tenant            |
|-----------------|----------|-------------------|-------------------|
| Shriram Gateway | PBD      | 212,000           | Accenture         |
| Center Point II | SBD      | 192,000           | BNP Paribas       |
| Temple Steps    | Off CBD  | 10,000            | Agility Logistics |
| KRM Plaza`      | CBD      | 9,700             | Nestle            |

Source: CBRE Research, Q2 2015.

**Table 10: Sub-market Key Stats**

| Micro-market  | Average Rent in Q2 2015 (INR / sq. ft. / month) | Average Rent in Q1 2015 (INR / sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Anna Salai, Nungambakkam, RK Salai, T Nagar, Egmore, Alwarpet) Grade A                         | 74  | 74  | 0.0              | 1.4              |
| Off CBD (Guindy, Kilpauk, Taramani, Adyar, Anna Nagar) Grade A (Non IT/IT)                          | 58  | 58  | 0.0              | 3.6              |
| Off CBD (Guindy, Kilpauk, Taramani, Adyar, Anna Nagar) Grade A (Non IT SEZ)                         | 71  | 71  | 0.0              | 4.4              |
| Suburban Business District (Velachery, Perungudi, Mount Poonamallee Road) Grade A (Non IT)          | 44  | 44  | 0.0              | 0.0              |
| Suburban Business District (Velachery, Perungudi, Mount Poonamallee Road) Grade A (IT)              | 51  | 51  | 0.0              | 6.3              |
| Suburban Business District (Velachery, Perungudi, Mount Poonamallee Road) Grade A (IT SEZ)          | 60  | 60  | 0.0              | 15.4             |
| Peripheral Business District (Perungalathur, Sholinganallur, Siruseri, Ambattur, GST Road) (IT)     | 27  | 27  | 0.0              | 3.8              |
| Peripheral Business District (Perungalathur, Sholinganallur, Siruseri, Ambattur, GST Road) (IT SEZ) | 40  | 40  | 0.0              | 8.1              |

Source: CBRE Research, Q2 2015.

## MARKET SUMMARY

- IT / ITes sector dominated leasing activity with 30% share
- IT buildings in Off CBD/PBD observed rental appreciation of 5–6%

The **Central Business District (CBD)** of **MG Road, Koregaon Park, Bund Garden, Kalyani Nagar, Dhole Patil, FC Road and JM Road** observed strong demand for IT space with major concentration in developments such as Panchshil Tech One, Marisoft I and Sky One, among others. A spurt in transaction activity in IT developments led to a marginal rental appreciation of 1–2% on a quarterly basis.

The **Off CBD of Viman Nagar, Magarpatta, Aundh, Baner, Shanker Seth Road and Nagar Road** witnessed low levels of absorption with the closure of a few small and medium format office spaces, largely by IT and Knowledge Process Outsourcing (KPO) firms. Owing to the absence of large, ready-to-move-in office spaces, this micro-market witnessed firms exploring options in office developments that were nearing completion. A few large-sized transactions currently under discussion are likely to convert into closures in the coming few months.

This micro-market witnessed limited new supply as developers delayed construction in anticipation of increased FSI for the ITes segment in the proposed IT and Enabled Services policy for Maharashtra. Strong occupier demand contributed to a slight increase in rents in existing IT developments, while remaining stable in non-IT and SEZ segments.

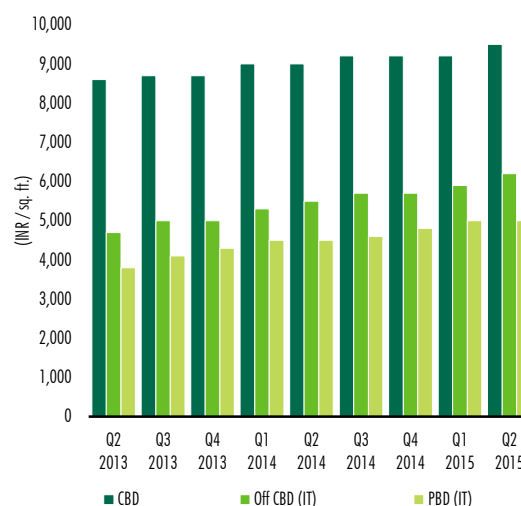
The **Peripheral Business District (PBD)** of **Hinjewadi, Kharadi, Hadapsar and Talawade** attracted enhanced levels of enquires for larger format office spaces from IT firms; however, transaction closures remained low during the quarter. Due to anticipated delivery of quality office space options in the coming months, a few key occupiers looking for contiguous, larger

Chart 22: Rental Value Movement



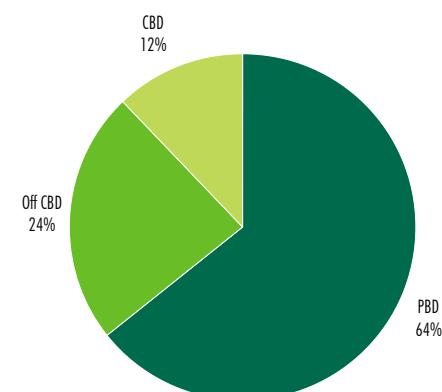
Source: CBRE Research, Q2 2015.

Chart 23: Capital Value Movement



Source: CBRE Research, Q2 2015.

Chart 24: Segmentation of Transaction Activity



Source: CBRE Research, Q2 2015.



format office spaces are likely to block spaces in locations such as Hinjewadi, Pimpri and Kharadi. Limited availability of ready-to-move-in options

and strengthening demand for IT space supported rental appreciation of 5–6% in select IT developments.

Table 11: Selected Leasing Transactions

| Property          | District | Size (in sq. ft.) | Tenant          |
|-------------------|----------|-------------------|-----------------|
| Westend Center    | Off CBD  | 28,000            | Indecomm Global |
| Eon SEZ           | PBD      | 27,000            | Digicaption     |
| Amar Arma Genesis | Off CBD  | 25,000            | GS Labs         |

Source: CBRE Research, Q2 2015.

Table 12: Sub-market Key Stats

| Micro-market  | Average Rent in Q2 2015 (INR/sq. ft. / month) | Average Rent in Q1 2015 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade A              | 73  | 73  | 0.0              | 1.4              |
| CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade B              | 58  | 58  | 0.0              | 1.4              |
| Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (Non IT) | 56  | 56  | 0.0              | 1.8              |
| Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (IT)     | 53  | 50  | 6.0              | 10.4             |
| Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (IT SEZ) | 62  | 60  | 3.3              | 31.9             |
| PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (IT)                              | 42  | 40  | 5.0              | 5.0              |
| PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (IT SEZ)                          | 43  | 43  | 0.0              | 2.4              |

Source: CBRE Research, Q2 2015.

### MARKET SUMMARY

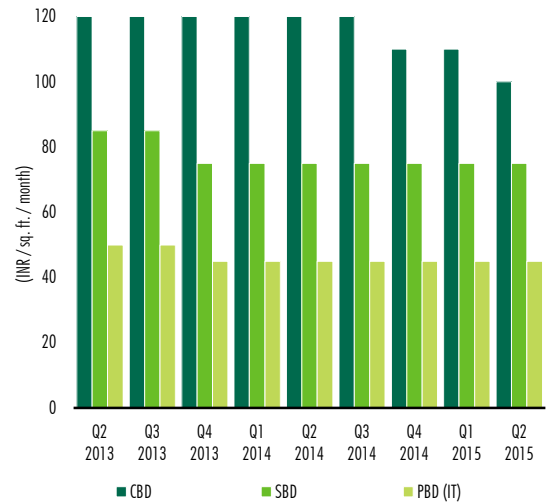
- Leasing activity remained upbeat in peripheral locations
- IT and electronics sectors remained the major drivers of overall office space demand
- Restrained demand in CBD is likely to keep rentals under pressure

The **Central Business District (CBD)** of **Chowringhee, BBD Bagh, Park Street** and **Camac Street** witnessed completion of two office developments—Arcadia Central on Camac Street and Diamond Heritage on Strand Road—that pushed up vacancy levels in the second quarter. Arcadia Central witnessed strong interest from occupiers looking at expansion requirements within the CBD micro-market; while Diamond Heritage, a traditional business house, observed low occupier interest owing to accessibility issues. On the demand side, corporate occupiers explored options in select developments with good support infrastructure and better facilities. Rentals declined by 9–10% on a quarterly comparison on the back of low occupier demand in the second quarter.

Owing to limited supply availability, the **Secondary** micro-markets of **EM Bypass, Kasba–Gariahat, Topsia** and **Sarat Bose Road** witnessed sluggish transaction activity in the second quarter. On the supply front, this micro-market is likely to witness healthy supply addition (mainly concentrated in Kasba and Topsia) in the second half of the year. A few developments, such as Tirumala 22 in Topsia and Acropolis in Kasba nearing completion, witnessed significant pre-commitment activity over the past few months. Vacancy levels in these developments were recorded at about 10–15% during the review period.

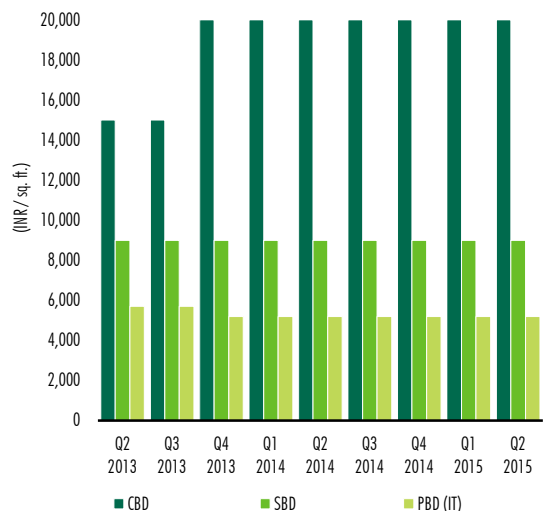
Office space absorption in the peripheral micro-markets of **Salt Lake** and **Rajarhat** increased significantly, with telecommunications and banking / financial services sectors being the major contributors to space take-up during the second quarter. Owing to construction delays, this micro-market did not witness any addition

Chart 25: Rental Value Movement



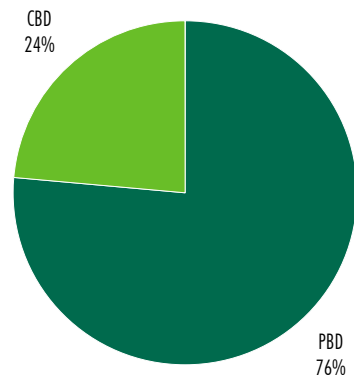
Source: CBRE Research, Q2 2015

Chart 26: Capital Value Movement



Source: CBRE Research, Q2 2015

Chart 27: Segmentation of Transaction Activity



Source: CBRE Research, Q2 2015

to total office stock; however, a significant supply pipeline is anticipated to be released by the end of this year. Vacancy rates dropped marginally

during the quarter as demand outpaced supply, while rentals remained stable over the previous quarter.

**Table 13: Selected Leasing Transactions**

| Property           | District | Size (in sq. ft.) | Tenant   |
|--------------------|----------|-------------------|--|
| DLF SEZ            | PBD      | 70,000            | Ericsson   |
| Arcadia Central    | CBD      | 14,000            | Canon India                                      |
| Infinity Benchmark | PBD      | 8,800             | Nomura Research Institute Financial Technologies |

Source: CBRE Research, Q2 2015.

**Table 14: Sub-market Key Stats**

| Micro-market  | Average Rent in Q2 2015 (INR/sq. ft. / month) | Average Rent in Q1 2015 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Park Street, Camac Street, Theatre Road) Grade A               | 100   | 110   | -9.1             | -16.6            |
| Secondary Business District Grade A                                 | 75  | 75  | 0.0              | 0.0              |
| Peripheral Business District (Salt Lake, Rajarhat) (IT) Grade A     | 45  | 45  | 0.0              | 0.0              |
| Peripheral Business District (Salt Lake, Rajarhat) (IT SEZ) Grade A | 34  | 34  | 0.0              | 3.0              |

Source: CBRE Research, Q2 2015.

**MARKET OUTLOOK****DEMAND TO STRENGTHEN; IT, BANKING AND E-COMMERCE TO REMAIN THE DOMINANT SECTORS**

Improvements in the macro-economic situation and business sentiments are expected to support expansionary momentum in the office market over the rest of the year. The second half of 2015 is expected to augur well for commercial real estate with the closure of several enquiries currently active in the market. Prime office spaces in centralized locations are likely to observe demand from corporates seeking smaller office configurations (mostly secondary space); while firms looking for larger format office spaces will explore cost effective options in the suburban and peripheral markets for their expansion or consolidation requirements.

Increased level of enquiries and significant pre-commitment activity is likely to further boost space absorption in the forthcoming quarters—particularly in Delhi NCR, Bangalore and Mumbai. It is also expected that the share of expansion related transactions in most of these cities will witness an increase compared to pure consolidation efforts reported in the past few quarters. Industry sectors such as IT/ITeS and banking / financial services are likely to remain the dominant demand drivers for office space, with engineering / manufacturing, research / consulting and pharmaceuticals being the other active sectors. It is likely that the current boom in e-Commerce and allied industries will continue to provide an impetus to demand for commercial space at least for the rest of the year.

**SUPPLY CRUNCH TO DRIVE RENTALS IN PREFERRED OFFICE DESTINATIONS; PRESSURES IN EMERGING MICRO-MARKETS**

Although the first half of the year has already witnessed a significant quantum of project completions, a large portion of supply pipeline in Delhi NCR and Bangalore has also been pushed forward owing to delay in statutory approvals. Prime office markets in most leading cities are witnessing a scarcity of available Grade A office space, a trend that is likely to continue for the next couple of quarters resulting into rentals firming up in select locations.

While prime markets are expected to witness a supply crunch, a significant quantum of pipeline is concentrated in emerging, decentralized markets; where occupier interest to pre-commit in under construction developments is likely to increase due to lack of ready to move in options in completed projects that suit their requirements.

**RENTAL GROWTH – CORE VS PERIPHERAL**

Owing to strong occupier demand and restricted supply addition, most prime office locations are expected to continue to command a premium and witness rental growth in the short to medium term. However, select micro-markets such as the CBD of Delhi might witness a cautious slowdown in rental growth, as rents are already at a peak and occupiers might opt for peripheral locations for further expanding their footprint.

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